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EGYPT - WEST GERMANY: Cairo's hopes for broadening ties with Western Europe have been clouded by the Munich incident and resultant strains in Egyptian - West German relations.

Egypt's initial public reaction to the events in Munich was guarded, but Cairo was quick to react negatively to West German charges that it had not fully cooperated with Bonn.

The newly arrived German ambassador was summoned on 7 September for clarification of his government's position. Egyptian media also launched a hostile barrage against Bonn for making what Cairo considered false allegations about the Egyptian position and condemned West Germany for having set a trap for the fedayeen.

In spite of some attempts by both sides to reduce the strains in their relations, serious frictions have remained. A visit to Bonn by the Egyptian foreign minister scheduled for later this month has been postponed, and the presentation of the credentials of the West German ambassador in Cairo has been delayed for five days. Moreover, an Egyptian spokesman announced that Cairo had found Bonn's explanation of the Munich incident and its aftermath "unacceptable." The meeting in Cairo yesterday of the West German ambassador and the Egyptian foreign minister, however, may have rectified some of the issues between the two countries. According to the influential newspaper, al-Ahram, Egypt hopes for improved relations with West Germany. The article indicates that both countries are making an effort to paper over the dispute. The Egyptian cabinet is scheduled to discuss the situation today.

Before the Munich incident Cairo was clearly interested in strengthening relations with Western Europe, including Bonn. Egypt has looked to these

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countries as sources of economic aid, political support in the confrontation with Israel, and as potential suppliers of some military equipment. In particular, Cairo had hoped to rally West European support at the UN General Assembly session later this month. These considerations evidently have taken second place, however, to reacting against what the Egyptian leadership almost certainly sees as another Western assault on its "dignity." Egypt will not directly condemn the acts of the Palestinian groups, and it continues to lay the ultimate blame for the terrorism on Israel.

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POLAND - WEST GERMANY: Polish Foreign Minister Olszowski's trip to Bonn, beginning today, will probably be the occasion for announcing the establishment of diplomatic relations.

Missions reportedly will be exchanged fairly soon, but ambassadors will not be appointed until several bilateral issues have been resolved, and possibly not until Bonn's negotiations with East Germany and Czechoslovakia are completed. In the latest round of talks, Warsaw and Bonn spent considerable time discussing the key issue of identification and resettlement of Poland's ethnic Germans in West Germany.

Olszowski is the first high-level Polish dignitary to pay an official visit to West Germany since the war. In addition to the talks in Bonn, he plans to visit Munich and the Dachau concentration camp memorial. Romania is the only other Warsaw Pact country, aside from the USSR, that has diplomatic ties with West Germany.

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SRI LANKA: Four oft-postponed parliamentary by-elections, now set for 9 October, may make clearer the extent of the decline in the government's public support.

Three of the contested seats were won by Prime Minister Bandaranaike's Sri Lanka Freedom Party (SLFP) in general elections held in May 1970, but they subsequently became vacant through death or disqualification of the incumbents. Mrs. Bandaranaike's three-party coalition won 115 of 151 seats in the 1970 elections, but since then the country's economic decline has eroded the government's popularity. Even at the time of its victory the coalition had somewhat less public support than its parliamentary margin indicated; apportionment peculiarities enabled it to acquire its heavy legislative majority with only 48.8 percent of the popular vote.

The elections are to be held in constituencies located in several parts of the country. This should provide a significant test of the government's strength and possibly of the grassroots support of the far-left People's Liberation Front, the group that launched an abortive island-wide insurrection in April 1971. The Front, according to preliminary reports, has instructed its members to vote for the candidates of a small leftist opposition party.

Increasing restiveness of trade unions--currently exemplified by a nationwide bank strike--together with existing emergency regulations could give the government a pretext for again postponing the by-elections if it fears a serious setback. A postponement would probably trigger noisy public protests. [redacted]

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PANAMA: The recently elected National Assembly opened for business on Monday by calling on General Torrijos to refuse the \$2-million annual payment from the US for the use of the Canal Zone. The resolution is not binding, but in any case Torrijos appears to need the money too much to refuse to cash the checks, as Castro has with US rent payments for Guantanamo. Although Foreign Minister Tack indicated that the assembly move came as a surprise to Torrijos and top government officials, the whole episode may have been staged. Torrijos and Tack have long desired to publicize Panama's case, but felt constrained so long as prospects for successful negotiation existed. Torrijos has attempted to persuade the US that he is under great pressure to conclude a new canal treaty and now he can use the resolution to support that point without becoming directly involved himself.

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JAPAN-UK: Recently concluded trade talks between the UK and Japan will do little to reduce European concern over Japanese inroads into the European market. Little hard bargaining actually went on but Tokyo agreed to consultations if British industries are hurt by Japanese exports; no concrete steps were taken to restrain exports of such items as ball bearings, color television sets, and automobiles, which have led Japan's recent sales surge in the UK. In 1971, British imports from Japan jumped 50 percent and a further 42-percent gain was registered during the first five months of this year. British sales to Japan, meanwhile, have risen slowly. Trade issues will again be dealt with when Prime Ministers Tanaka and Heath meet in Tokyo later this month. Unless Tokyo makes some concessions, London can be expected to take a tough line on EC trade policy toward Japan after the UK joins the EC next January.

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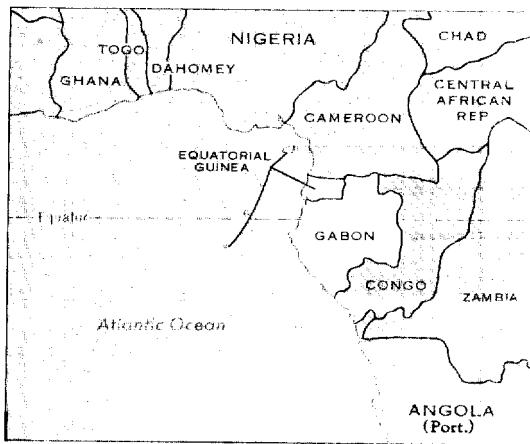
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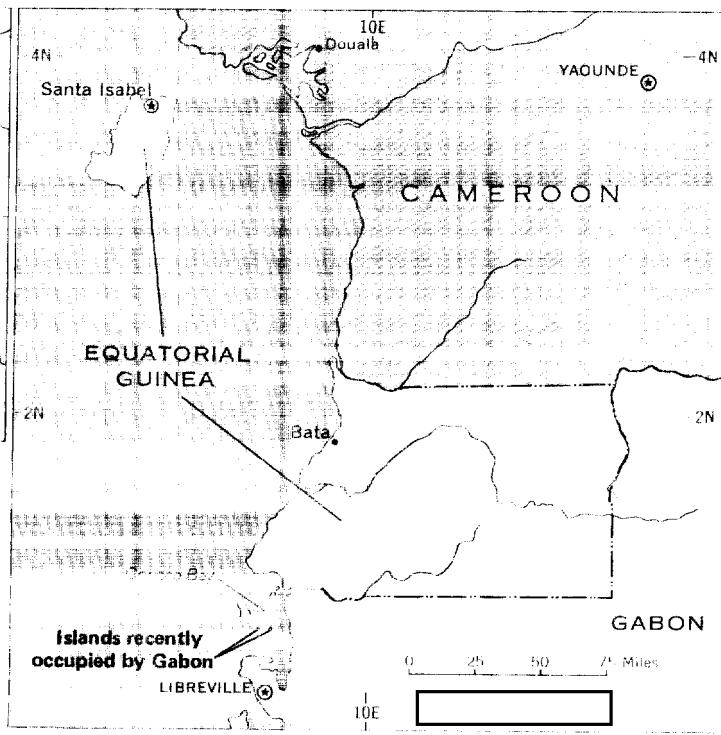
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Equatorial Guinea - Gabon Border Dispute Heats Up



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EQUATORIAL GUINEA - GABON: Equatorial Guinea has requested an emergency meeting of the UN Security Council over a long-standing border dispute that has recently become inflamed. The Guineans are protesting Gabon's recent occupation of at least two tiny islands in an offshore area claimed by both countries because of its potentially rich oil and fishing resources. The two countries' maritime boundaries apparently have never been delimited. China's UN representative, the president of the Security Council this month, has begun consultations with other Security Council members. [redacted]

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